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No. 88-1773

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1988

RICOH COMPANY, LTD.,
Petitioner,

VS.

DONALD L. SNELLMAN d/b/a NORFIN,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

PETITIONER'S REPLY TO BRIEF FOR THE RESPONDENT IN OPPOSITION

Of Counsel:
ARTHUR I. NEUSTADT
RICHARD D. KELLY
OBLON, SPIVAK, MCCLELLAND,
MAIER & NEUSTADT, P.C.
1755 Jefferson Davis Hwy.
Arlington, VA 22202
(703) 521-5940

PRESTON MOORE
Counsel of Record
TAMU K. SUDDUTH
JEFFREY S. HARLESTON
MORRISON & FOERSTER
345 California Street
San Francisco, CA 94104-2675
(415) 677-7000

GERALD W. GRIFFIN
COOPER & DUNHAM
30 Rockefeller Plaza
New York, New York 10112
(212) 977-9550
Counsel for Petitioner
Ricoh Company, Ltd.

June 4, 1989

BOWNE OF SAN FRANCISCO, INC. • 190 NINTH ST. • S.F., CA 94103 • (415) 864-2300

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Respondent's opposition brief mischaracterizes the proceedings below and the question presented. Respondent also quotes from several antitrust decisions, but omits language that strikingly reinforces the conclusion that the Federal Circuit has strayed far from existing doctrine in awarding damages based on projected sales that never occurred. The extraordinary breadth of the assertions offered by respondent as justifying the Federal Circuit's decision underscores the need for this Court to grant review.

I

RESPONDENT HAS MISCHARACTERIZED THE QUESTION PRESENTED AND THE BASIS FOR THE FINAL JUDGMENT FROM WHICH RESPONDENT APPEALED

Respondent characterizes the question presented as whether projections of infringing sales are admissible as evidence in a patent damages case. Opp. at 6. The issue here, however, is whether such projections can be used instead of actual sales as a revenue base in determining what "reasonable royalty" is necessary to compensate a patentee for what was actually lost as a result of nonwillful acts of infringement. Whatever evidentiary value sales projections may have in arriving at a royalty *rate*,[1] they cannot be substituted for actual sales as the revenue *base* to which the royalty *rate* is applied. The damages awarded must be tied to the actual injury to the patentee's property rights—*i.e.*, the actual "use made of the invention by the infringer." 35 U.S.C. § 284 (1982). The Federal Circuit's decision is squarely in conflict with these principles.

Similarly, the question presented is not, as respondent suggests, whether damages should be awarded without regard to whether an infringer "gained or lost" by its "unlawful acts." Opp. at 7. Rather, the issue is whether an award of damages can be disconnected entirely from the scope, number, and extent of the unlawful acts. The logic of the Federal Circuit's decision would permit the very same award of damages as occurred at the first trial if there had never been *any* infringing sales. Respondent argued below that the first act of infringement in this case was not a sale at all, but rather a demonstration of the infringing machine at a trade show. Thus, under the Federal Circuit's opinion, respondent would be entitled to $12,000,000 (or the $24-26

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[1] Of course, projected sales may be considered as a factor affecting the royalty rate. *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1131 (S.D.N.Y. 1970), *modified* and *aff'd*, 446 F.2d 295 (2d Cir.), *cert. denied*, 404 U.S. 870 (1971). Usually, however, larger volume projections lead to a lower royalty rate, since the inventor's investment can be recovered over a larger base.

million it claimed, or more) even if Ricoh had never sold a single infringing collator—an astounding result.

Respondent's attempt to obscure the question presented is also evident in its inaccurate portrayal of the proceedings below.[2] Respondent focuses on an erroneous jury instruction given at the first trial. Of course, once it granted a new trial the District Court was not required to repeat jury instructions or rulings from the first trial.[3] Rather, it was free to conduct the second trial as if there had been no prior trial on the damages issue. *United States v. Ayres*, 76 U.S. (9 Wall.) 608, 610 (1870); *see also* 25 *Federal Procedure*, New Trial § 58.37, at 766 (L. Ed. 1984). The jury instructions from the first trial do not alter the question presented by the petition.

Moreover, the record clearly refutes the impression respondent attempts to create, that Ricoh acquiesced in an award of damages based on sales projections instead of actual sales. When the evidence of sales projections was offered in support of respondent's damages calculation Ricoh objected strenuously, stating: "[I]t is our position that the royalty applicable to the United States sales is only applicable to actual sales." (R.T. 8-1116.) Ricoh pointed out at that time that the *Panduit*,[4] *Georgia Pacific*,[5]

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[2] Respondent's assertion that there are currently two motions before the trial court is not true. Opp. at 6. The only motion before the trial court is respondent's motion for reinstatement of the excessive $12,000,000 verdict. That motion is based on respondent's position that the Federal Circuit's opinion leaves the District Court with no other option.

[3] In a ruling that was not reversed on appeal, the trial court granted a new trial on damages, based on its finding that the $12,000,000 verdict was a "miscarriage of justice." App. at 6a. Respondent chooses to omit this ruling from its recitation of the facts. Opp. at 4.

[4] *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978).

[5] *See supra* note 2.

and *Alpine Valley*[6] cases "[mean] that you take actual sales." (R.T. 8-1123 to -1123A, 8-1126.)

Respondent wishes to avoid the issue presented by the District Court's order specifically requiring that damages be tied to actual sales.[7] Following the trial court's determination that the damages verdict was a "miscarriage of justice" and the court's grant of a new trial, App. at 6a, Ricoh moved for a ruling that damages must be based on actual sales, not projected sales.[8] Contrary to respondent's characterization of the question presented, the District Court did not rule that evidence of projected sales would be inadmissible at the second trial. Rather, the District Court ruled (a) that any royalty base used to calculate a damages award for patent infringement must be based on actual infringing sales; and (b) that specific calculations performed by respondent's expert were fundamentally inconsistent with that ruling. App. at 13a, 16a-17a. The effect of the court's ruling was to limit damages to an amount reflecting Ricoh's actual infringing sales. Respondent appealed from the resulting judgment.[9]

The judgment from which respondent appealed was predicated upon the trial court's determination that damages must be based on actual sales. This fundamental measure of damages issue was squarely presented in the appellate briefs submitted to the Federal Circuit, was scrutinized at oral arguments, and was ruled upon by

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[6] *Hanson v. Alpine Valley Ski Area*, 718 F.2d 1075 (Fed. Cir. 1983).

[7] Respondent's argument fails even to mention the crucial order entered by the District Court concerning the measure of damages.

[8] Respondent's opposition to that motion never suggested that the issue could be disposed of by reference to the instructions to the jury from the first trial.

[9] The appeal to the Federal Circuit was in no way interlocutory. Thus, reversal of the Federal Circuit's decision will lead to reinstatement of the judgment based on actual sales and an end to this litigation. Moreover, the question presented here will remain central to the litigation whether the trial court reinstates the $12,000,000 verdict or holds a new trial governed by the Federal Circuit's decision.

the appellate court. Accordingly, the question presented by the petition is the question properly before this Court.[10]

II

RESPONDENT'S ARGUMENT CONFIRMS THE IMPORTANCE OF THE QUESTION PRESENTED TO PROPER ADMINISTRATION OF THE UNITED STATES PATENT LAWS

Respondent observes that the basic purpose of patent damages is to place the patent holder in the position he would have occupied but for the infringement. Opp. at 8. The Federal Circuit's opinion, however, goes far beyond placing respondent in the same position and allows respondent to recover far more than compensation for actual losses.

If no infringement had occurred, respondent would have had, at best, the opportunity to license or manufacture 1,814 more units than it actually licensed or manufactured. Respondent retained the right to utilize its patent fully, except for the units *actually sold* by Ricoh. The Federal Circuit's opinion would allow respondent both to license or manufacture units other than the ones sold by Ricoh and to receive compensation for those same other units in the form of damages. This double compensation is inconsistent with this Court's reasoning in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 510 (1964) (disallowing second recovery from contributory infringer where patentee has already recovered royalty from direct infringer).

The District Court found no precedent—"no warrant in law"—for permitting an award of damages for acts of infringement that never occurred. App. at 13a. Although respondent argues that courts "routinely" allow recovery of lump sum dam-

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[10] Even if respondent's assertions concerning the first trial were accurate, the question presented would remain unaffected. Any issue related to the correctness of the jury instruction cited by respondent was rendered moot by the trial court's determination that the jury verdict was a "miscarriage of justice" and its order granting a new trial. App. at 6a. *See supra* note 3 and accompanying text.

ages without regard to the actual extent of the infringement, it also could not find a reported case in which such an award was approved. Opp. at 9. Its assertion that no court has ever limited a patent holder's recovery to actual use is easily refuted. *See, e.g., Alpine Valley*, 718 F.2d at 1075 (lump sum royalty limited to years machines in use); *Minnesota Mining & Mfg. Co. v. Berwick Indus.*, 393 F. Supp. 1230, 1245-46 (M.D. Pa. 1975) (lump sum prorated to infringing uses), *aff'd*, 532 F.2d 330 (3d Cir. 1976). In fact, every pertinent reported decision known to the petitioner has applied the law in just this way. No court has ever held, in the face of the plain language of section 284 ("the use made of the invention by the infringer"), that "reasonable royalty" damages could be recovered for projected sales that were never made.

The unprecedented reach of the Federal Circuit's decision is demonstrated by respondent's resort to two antitrust cases for support. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969), cited at page 9 of the Brief in Opposition, impeaches, rather than supports, the Federal Circuit's decision. As is evident from a portion of the Court's opinion in *Zenith* not quoted by respondent, *Zenith* expressly endorses the principle that a licensee cannot be required to pay a royalty on sales of products that make no use of the patented invention:

> [P]atent misuse inheres in a patentee's insistence on a percentage-of-sales royalty, regardless of use, and his rejection of licensee proposals to pay only for actual use. Unquestionably *a licensee* must pay if he uses the patent. Equally, however, he *may insist on paying only for use*, and not on the basis of total sales, including products in which he may use a competing patent or in which no patented ideas are used at all.

395 U.S. at 139 (emphasis added). Requiring a nonwillful infringer to pay damages for sales that were never made is comparable to requiring a licensee to pay a royalty on sales of products that make no use of the patented invention.

Respondent's reliance on *Broadcast Music Inc. v. Columbia Broadcasting System*, 441 U.S. 1 (1979), and *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950),

overruled, Lear v. Adkins, 395 U.S. 653 (1969), is also misplaced. These antitrust cases do not address royalty fees or rates in the context of a damages determination. Rather, the cited portion of *Broadcast Music* addresses the charging of a flat copyright licensing fee as an indication of anticompetitive activity. Both *Automatic Radio* and *Broadcast Music* concern the acquisition of an unlimited license or privilege to use patented or copyrighted material as the licensee desires—a privilege Ricoh never received.

These cases underscore the fundamental problem presented by the Federal Circuit's decision: the hypothetical construct of a willing buyer—willing seller license negotiation cannot be applied without reference to the compensatory purpose of the reasonable damages award. As this Court noted in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641 (1915), a jury in determining reasonable royalty damages "did not make a contract for the parties, but found a measure of damages." *Id.* at 649 (citation omitted). The differences between licenses, as found in commercial reality, and damages awards are clear and compelling. That which may be permitted within the freedom of contract prevailing in genuinely willing licensing negotiations cannot be equated simplistically with measuring damages under the statutory mandates that damages must be compensatory and that reasonable royalty damages are limited to the use made of the invention by the infringer. When a license provides for a lump-sum royalty, the licensee *actually obtains* the unrestricted right to make and sell as many of the patented articles as he wishes. No such right is received by the infringer, whose "taking" is limited to its actual infringing acts. Thus, a "lump sum" recovery that is not prorated to actual use attributes to the nonwillful infringer a right and privilege that it did not and could not receive and compensates the patentee for an injury to its rights that it did not and could not suffer.

Ricoh never had the right to make unlimited use of respondent's patent. In fact, respondent sought and received a temporary restraining order forbidding Ricoh from selling the infringing products. Despite all of this, the Federal Circuit's decision sanctions a damages rule that taxes Ricoh as if it had in fact received

an unlimited right of use and that rewards respondent as if it had lost the same.

If, as respondent suggests, this extraordinary tilt in the law of patent damages has become so common in the lower federal courts as to be "mundane," that is all the more reason for this Court to examine fully the legal question presented.

CONCLUSION

Respondent's opposition brief provides no support for the decision below, which represents a dangerous departure from the concept embodied in section 284, that damages for nonwillful infringement must compensate only "for the use made of the invention by the infringer." 35 U.S.C. § 284 (1982). This Court has lately had occasion, in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, ____ U.S. ____, 109 S. Ct. 971 (1989), to address the delicate balance crafted by Congress in the patent laws, and the importance of the underlying policy to encourage innovation.[11] The Federal Circuit's derogation of the statutory measure of damages principles by manipulation of hypothetical constructs threatens the vitality of real-world innovation.

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[11] These policy issues are explored in the proposed Brief Amicus Curiae filed by the International Electronics Manufacturers and Consumers of America on June 2, 1989.

For the reasons given above and in its Petition for Writ of Certiorari, petitioner respectfully urges this Court to grant certiorari to resolve this fundamental question of patent law.

Respectfully submitted,

Of Counsel:
ARTHUR I. NEUSTADT
RICHARD D. KELLY
OBLON, SPIVAK, MCCLELLAND, MAIER & NEUSTADT, P.C.

PRESTON MOORE
Counsel of Record
TAMU K. SUDDUTH
JEFFREY S. HARLESTON
MORRISON & FOERSTER

GERALD W. GRIFFIN
COOPER & DUNHAM
Counsel for Petitioner Ricoh Company, Ltd.

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